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UNCLAS HARARE 000141

SIPDIS

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR AMANDA HILLIGAS
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A
TAGS: ECON EINV ETRD PGOV ZI
SUBJECT: An Equilibrium Rate at Currency Auctions?

11. Summary: For the fifth consecutive currency auction, the Reserve Bank (RBZ) has pushed down the country's new semi-official exchange rate. As demand for U.S. dollars goes up and the RBZ's supply goes down, economic theory suggests the zimdollar should depreciate. But not here, where stubborn pride is inducing the GOZ to keep its currency at exalted rates, potentially reigniting the parallel market. End Summary.

12. At Monday's auction, the zimdollar strengthened from Z\$ 3,613 to 3,563:US\$. The increasingly overvalued zimdollar has exporters up-in-arms. They must already exchange 25 percent of earnings at the official rate of Z\$824:US\$. On their behalf, the Confederation of Zimbabwe Industries (CZI) has proposed that RBZ accept no rate lower than Z\$5800:US\$ - or relinquish its right to purchase 25 percent of earnings at Z\$824:US\$.

13. By cheering on each successive fall in the U.S. dollar's exchange rate while blaming past devaluations on speculators rather than fundamentals, the State media have put the RBZ in a delicate bind. Whether the RBZ has US\$ 10 or US\$ 50 million of remaining reserves (subject of much speculation), it will not be long before its supply runs dry. Tellingly, demand for U.S. dollars has increased at each successive auction. The oil industry estimates it needs to exchange US\$7 million/week to meet demand. Other imports may push potential weekly demand (depending on rate) to US\$15-20 million. If the GOZ forces parastatals to purchase forex through the auctions, demand escalates even further. Meanwhile, export revenue is probably just US\$1 million/day. Take out the GOZ's 20-25 percent cut and other export proceeds that never make it to the auction floor (e.g., exporters who remit funds in advance can retain 80 percent of forex earnings under the RBZ's new carrot-and-stick policy), and the current rate is economically unsustainable.

Comment

14. For the past five years, Zimbabwe seems to have had the lone government in Africa that never got the post-Brezhnev, post-Mao memo that markets make economics. In foreign exchange markets, the GOZ has insisted it can set any rate it wants, ignoring an equilibrium point where supply and demand mesh. New Reserve Bank Governor Gideon Gono promised a more liberal approach. He has yet to demonstrate whether he has the commitment to see it through.

Sullivan